Housing Finance Reform & Taxpayer Protection Act

The current mortgage system is all about private gain and public loss because taxpayers are still on the hook to write Fannie Mae and Freddie Mac another blank check.

Why this legislation is needed:

- It is time to end the failed model of private gains and public losses.

- Trillions of dollars of homeowner equity, and subsequently personal savings, were wiped out during the recession that began in 2008. This drop in home values led to a $188 billion taxpayer bailout of the government sponsored enterprises (GSEs) Fannie Mae and Freddie Mac.

- About 90 percent of home loans have the explicit government guarantee of the Federal Housing Administration or Fannie Mae and Freddie Mac. This leaves taxpayers on the hook for another blank check should our economy falter because Fannie and Freddie legally cannot hold capital to protect against losses – but they continue to pay private investors who purchase their bundled mortgages.

What it does:

- The bipartisan Housing Finance Reform and Taxpayer Protection Act of 2013 would:
    - Shrink the government's involvement, thus reducing taxpayer risks, in the housing market.
    - Ensure taxpayers get paid back from their almost $200 billion bailout of Fannie Mae and Freddie Mac during the 2008 financial crisis.
    - Preserve competitive 30-year fixed-rate mortgages.
    - Create an independent agency to mandate sufficient up-front capital is paid by private investors to protect taxpayers against loss, similar to how the current FDIC protects personal bank accounts against loss.
    - Ensure that local banks and credit unions aren't gobbled up by the "mega banks" by forming a new co-operative mutually owned by small banks, credit unions and other small lenders.

How it solves the problem:

- Requiring private market participants to set aside 10 percent of any mortgage-backed security would provide protection for double the loss experienced by Fannie and Freddie during the 2008 crisis. If this was law prior to the meltdown, taxpayers would have taken no losses.

- Dissolving Fannie and Freddie within five years and creating a modernized and streamlined agency will ensure those taking the risks also take the loss instead of taxpayers. This new agency would function like the FDIC to protect investments using collected fees.

- In short, this bipartisan legislation protects taxpayers and mortgage market liquidity, while moving to a modernized housing finance system. The alternative is to wait and do nothing, which is the equivalent of asking taxpayers to write a blank check for future bailouts.